

# IRS News Release

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## **Increase in Federal Minimum Wage Will Not Reduce 45B Credit**

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Washington — Employers should be aware of two changes to the credit for the portion of employer Social Security paid with respect to employee cash tips known as the 45B Credit. These changes are the result of recently enacted legislation.

The law now requires employers to determine their credit using the minimum wage in effect on January 1, 2007 even if the minimum wage increases. Therefore, in 2007, when the federal minimum wage did increase to \$5.85 from \$5.15 per hour, employers will still use the \$5.15 rate to determine their credit to compute their allowable credit for tips reported for services performed after Dec. 31, 2006.

The 45B Credit allows employers in the food and beverage industry to claim a credit for the Social Security and Medicare taxes the employers pay on their employees' tip income. The credit equals the Social Security and Medicare taxes the employer paid on the tips received by the employees. However, no credit is given for tips used to meet the federal minimum wage rate.

Employers claiming the credit must reduce their Social Security and Medicare tax deduction accordingly. Eligible employers should use [Form 8846, Credit for Employer Social Security and Medicare Taxes Paid on Certain Employee Tips](#), to claim the credit.

The new law also allows the employer to use the 45B credit to offset alternative minimum tax. Previously, the credit could only be used against the regular tax. This offset is available for 45B credits for taxable years beginning after Dec. 31, 2006.

Additional information about the 45B credit is available in the Form 8846 instructions and on the [45B pages of irs.gov](#).